

ICI Chairman's Review

Company's growing strength gives confidence for the future



Sir Paul Chambers, Chairman of ICI, with the Burgomaster of Oostering at the official inauguration of ICI's nylon plant in the German Federal Republic.

Addressing stockholders at the 40th Annual General Meeting of Imperial Chemical Industries Ltd. in London on March 30th the Chairman, Sir Paul Chambers, said of the Company's prospects for 1967 and subsequent years that it was "singularly difficult to make any forecast at the present time when the results of the first quarter are unknown and, what is just as important, when Government action, whether in the Budget or in any other form, can only be a matter of speculation. We could have hardly foreseen the effect that the Government's measures last July would have had on our customers, throughout British industry. The effect on our profits can be seen in the sharp fall of profitability between the first half of last year and the second half, a substantial part of which was due to this

factor. This is the kind of unpredictability hazard we now face in 1967.

"Sales in this country have not picked up very much yet from the low levels of the second half of last year but they have stopped falling and show some signs of rising in certain fields. What this means in terms of profitability is difficult to judge at this stage. We believe that profits before taxation will be higher in 1967 than in 1966 but it is impossible to say yet whether they will be high enough to ensure that profits after tax will also be higher. We shall be in a better position to make a forecast when the first half year's profits are available, which will be in September next.

MAIN CAUSE OF INFLATION

"Much will depend upon Government financial policy. The Government certainly needed to take firm measures last July to relieve inflationary pressures which were having such an adverse effect on the

balance of payments. But," Sir Paul continued, "the nature of the measures taken and the effect which they are having on the economy of this country are deeply disturbing. Everything in the private sector of the economy from wages and prices to bank advances and hire purchase was subject to a deep freeze or squeeze, and, although, predictably, the effect on the balance of payments was favourable, the result has been unemployment, depressed sales, lower prices and a natural disinclination throughout industry to build up stocks against potential sales or to incur capital expenditure against still more potential profits in the future." The whole economy was running at a lower level, but one factor and one factor only had been allowed to go on rising and that was Government expenditure, which was beyond all doubt the main cause of inflation. We were faced with a further 8½ per cent increase in Government expenditure in the coming year at a time when tax levels were so high that further increases would themselves be inflationary. "Until Government expenditure is reduced," said Sir Paul, "the main cause of inflation will remain, and restrictive measures aimed at the symptoms rather than the cause of inflation will do increasing damage to the country's economy."

A WARNING TO BE HEEDED

"Perhaps this policy of shrinking the private sector of the economy and inflating the public sector is deliberate, or perhaps it is just budgetary weakness; it is difficult to say, but until after the Budget next month it is impossible to judge how your Company's business will be affected. It is to be hoped that the Government will heed the warning given by the Governor of the Bank of England that a policy of expanding Government expenditure while depressing the rest of the economy is killing the goose that lays the golden eggs. Judicious expenditure on desirable social services is to be encouraged, but the extent to which millions of pounds of taxpayers' money are being used on expanding centralised Government controls and on maintaining inefficient and uneconomic activities is not yet fully realised. It is inflationary and it is in sharp contrast to the efforts being made in industry to increase the productivity of its manpower at all levels.

"I said last year that both 1966 and 1967 would be difficult years, and 1966 proved a good deal more difficult than we expected. Subject always to the effect of Government policy, 1967 is beginning to show some promise, particularly as large new plants are coming on stream and giving us an increasing flow of products for sale. It will, I think, be 1968 before a much brighter picture emerges. As for the future, your Directors remain confident

that your Company's strength is growing and that profitability will increase. I hope that this will begin to show itself before the end of the present year, but in the present difficult economic and political climate it is impossible to give a firm timetable."

Drawing attention to the Company's capital expenditure, Sir Paul said that the amounts sanctioned for expenditure had fallen from £202 millions in 1964 to £187 millions in 1965 and then to £159 millions in 1966. The upsurge in capital sanctions, which had its peak in 1964, was in punishment of a policy to expand and modernise production capacity in the Company's most important Divisions, particularly Mond, Agricultural, Heavy Organic Chemicals and Dyestuffs. With this programme nearing completion the amounts to be sanctioned in 1967 would show a further decline.

By contrast the amounts spent had risen from £106 millions in 1964 to £180 millions in 1965 and to £197 millions in 1966. There was a substantial time lag between the

THE GROUP IN 1966

(1965 figures in brackets)

	£m
Sales to customers in the UK	442.8 (442.9)
Sales to customers outside the UK	442.4 (389.6)
Exports from UK (i.e. a.o. value)	158.2 (149.6)
Trading profit	88.6 (112.9)
Net assets employed	1,207.7 (1,068.7)
Capital expenditure	186.5 (180.4)

sanctioning of a capital project and the outflow of cash, and this accounted for the steady build-up of cash outflow in 1966 following the very large amounts sanctioned in the earlier years. The actual outflow of cash in 1967 and 1968 was expected to decline sharply.

"There have been some press comments," said Sir Paul, "concerning your Company's investment programme, to the effect that this has been allowed to run ahead of demand and, further, that some very large new plants have been subject to undue delay before reaching full capacity operation. Whilst some of these comments are factually correct, they take no account of the abnormal circumstances in which your Company has been operating during the past two or three years and they ignore the longer-term advantages of having adequate capacity based on plants which employ the latest technological features and which are most economic to run once starting-up difficulties have been overcome. For many years the chemical industry has been growing rapidly at about twice

the rate of industry as a whole and there is every reason for believing that this growth will continue. To cater for this growth very large capital investment in new plants is needed. When, as in the past two or three years, there is superimposed on normal growth the consequences of rapid technological advance which require the early replacement of older plants by newer plants with much lower operating costs, the industry's resources both in terms of finance and personnel are inevitably strained.

"Moreover, the chemical industry is capital-intensive, and it can only offset the increases in wages and other costs (which are inevitable with inflation) and the large plants to gain the advantages of scale, as well as adapting new and cheaper processes as these are discovered. Both in the United States and in the European Economic Community chemical manufacturers have for many products a greater degree of protection than have United Kingdom producers. These markets are very much larger than the markets freely available to British manufacturers who, if they are to achieve the same advantages of scale, must often commit themselves at the outset to exporting a much larger proportion of their output. In general, because of highly competitive selling conditions in these export markets are difficult to predict for more than a short time ahead and, if one takes account of the cyclical nature of the British economy, the magnitude of the problem of matching plant capacity against sales demand is apparent."

RAPID TECHNOLOGICAL CHANGE

ICI did not, however, compare unfavourably with its overseas competitors in the provision of capacity in excess of current demand in order to meet forecast growth in demand. The Company had to take callings a new plant several times the scale of an existing plant, was moving from areas in which the technological problems were well known to areas in which solution of new problems can be achieved only through experience. "It would be surprising," said Sir Paul, "in a period of rapid technological change, if our judgements were invariably right and if we suffered no setbacks or delays. This is a phase which at the present time is common to the chemical industry throughout the world and, with our increasing knowledge of large-scale plants, we hope to have passed through it in the near future. When that time comes, we shall benefit very considerably from the work which was done in 1965 and 1966 and which will continue this year. I have on past occasions said

that 1966 and 1967 would be difficult years and, in saying this, I had in mind the difficulties and complexities which would follow from the very great but temporary increase in the rate of investment in new plants.

"Perhaps I might add that delays and setbacks with new plants become news but successes tend to pass unnoticed. We have recently had some notable successes in the smooth commissioning of some large new plants of which the aromatics plant, the new oilfines plant at Wilton, the urea and methanol plants at Billingham and the paraffin plant, which involved a difficult and novel process, are examples.

"The amount which is provided each year for depreciation grows as the Company's investment in fixed assets grows, and an increasing proportion of the funds required for capital expenditure is being found from these depreciation provisions. Indeed, so much is now taken from the Company in corporation tax, and in income tax on dividends, that we shall be compelled in future to rely mainly upon these depreciation provisions for the cash we require for future capital expenditure.

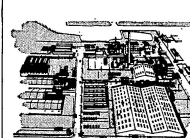
FUTURE CAPITAL NEEDS

"Last year, and indeed the year before, I said that I did not think we would need to go to the market for more money during the year in question, whether in the form of ordinary capital or loan stock, and on both occasions I proved to be wrong. You are entitled therefore to be somewhat sceptical if I make a similar statement on this subject today. However, I have shown that our capital expenditure is falling rapidly and, having trimmed our capital programme in the light of current economic conditions and made the most careful calculations, your Directors do not believe there will be any need for further finance this year."

Speaking of the results for 1966, Sir Paul said that home sales had increased by about 5 per cent. Exports were up by 5 per cent in value but in volume this amounted to 11 per cent, the difference being due to a fall in average prices.

The figure for group sales overseas had increased from £393 millions in 1965 to £442 millions in 1966. This included goods manufactured by overseas subsidiary companies as well as exports from this country. "In the three main territories (Australia, Europe and North America)" Sir Paul went on, "there have been substantial and progressive increases in sales. Indeed sales overseas have now overtaken sales in this country and there is no doubt that this trend will continue."

Some events of the ICI year



At ICI's Roanburg Works, near Rotterdam, new plant was completed for making 'Mylar' (ICI's polyethylene) and 'Mylar' polyethylene film to improve ICI's exports to Europe (ICI millions in 1966).



Spring 1967 finished in 'ICI-Nylon', 'Terylene' and 'Cronilan' were given an advance showing by ICI Fibres Ltd. at the Text Gallery, London.



ICI's Irish Home was built near Dublin to demonstrate to architects, builders and the public the practical application of over 100 different building products made by the ICI Group.



A new £7 million pharmaceuticals factory, one of the largest and most modern in Europe, was officially opened at Macclesfield, Cheshire.



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